

LANDER UNIVERSITY
GREENWOOD, SOUTH CAROLINA
STATE AUDITOR'S REPORT
JUNE 30, 1999

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INDEPENDENT AUDITOR'S REPORT

October 8, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

We have audited the accompanying basic financial statements of Lander University as of June 30, 1999, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Lander Foundation and the Lander University Alumni Association, component units of the University, which are discretely presented as part of the primary entity on the balance sheet and are discretely presented on separate statements of activities and of cash flows in the accompanying financial statements. The financial statements of the Lander Foundation were audited by other auditors whose report thereon, dated August 25, 1999, expressed an unqualified opinion on those statements, has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. The financial statements of the Lander University Alumni Association have not been audited but were furnished to us by that organization. The financial statements of that organization contain 1.6% of assets, 2.6% of support, and 4.2% of expenses of the discretely presented component units as of and for the year ended June 30, 1999.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of Lander University are intended to present the financial position, changes in fund balances, and its current funds revenues, expenditures, and other changes and the activities and cash flows of its component units of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of Lander University, an institution of the State of South Carolina. These financial statements referred to above include the financial activities of the Lander Foundation and the Lander University Alumni Association, component units of the University. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
October 8, 1999

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 1999, and the changes in fund balances and its current funds revenues, expenditures, and other changes and the activities and cash flows of its component units for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 20, certain errors in the application of accounting principles were discovered by management of the University during the current year. The changes have been accounted for as corrections of errors and the fund balances have been restated as of July 1, 1998.

The year 2000 issue supplementary information in section III of this report as Required Supplementary Information (Unaudited) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue, its effects, the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established, and the success of remediation efforts will not be fully determinable until the year 2000 and after and because insufficient evidence exists to support the disclosures. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

Thomas L. Wagner, Jr., CPA
State Auditor

BASIC FINANCIAL STATEMENTS

LANDER UNIVERSITY
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 1999

ASSETS**CURRENT FUNDS**

Unrestricted:

Cash and Cash Equivalents (Note 17)	\$ 952,332
State Appropriations Receivable (Note 3)	327,385
Accounts Receivable, Net (Note 15)	139,416
Due from Component Unit (Note 21)	26,056
Interest Receivable	1,292
Inventories, Net (Note 13)	195,110
Prepaid Items	111,766
Due from Other Funds: (Note 14)	
Restricted Current Funds	263,732
Retirement of Indebtedness Plant Funds	79,471
Agency Funds	32,013

Total Unrestricted	<u>2,128,573</u>
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Restricted:

Grants and Contracts Receivable	119,614
Due from Component Unit (Note 21)	273,125

Total Restricted	<u>392,739</u>
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Total Current Funds	<u>\$2,521,312</u>
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LOAN FUNDS

Cash and Cash Equivalents (Note 17)	\$ 113,672
Loans to Students, Net (Note 15)	1,188,336
Interest Receivable	586
Due from Unrestricted Current Funds (Note 14)	44,324
Total Loan Funds	<u>\$1,346,918</u>

LIABILITIES, NET ASSETS, AND FUND BALANCES**CURRENT FUNDS**

Unrestricted:

Accounts Payable	\$ 106,509
Interest Payable	3,297
Accrued Payroll and Related Liabilities	347,293
Due to State General Fund	19,977
Deferred Revenues	294,177
Student Deposits	182,043
Accrued Compensated Absences and Related Liabilities (Note 2)	999,546
Due to Other Funds (Note 14):	
Loan Funds	44,324
Unexpended Plant Funds	343,324
Fund Balance (Deficit), Net (Note 2)	(211,917)
Total Unrestricted	<u>2,128,573</u>

Restricted:

Accrued Payroll and Related Liabilities	5,692
Due to Unrestricted Current Funds (Note 14)	263,732

Fund Balances:

Grants and Contracts	123,315
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Total Restricted	<u>392,739</u>
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Total Current Funds	<u>\$2,521,312</u>
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LOAN FUNDS

Fund Balances:

U.S. Government Grants Refundable	\$1,346,918
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Total Loan Funds	<u>\$1,346,918</u>
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LANDER UNIVERSITY
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 1999

ASSETS

LIABILITIES, NET ASSETS, AND FUND BALANCES

PLANT FUNDS

Unexpended:

Cash and Cash Equivalents (Note 17)	\$ 353,894
Accounts Receivable	463
Due from Unrestricted Current Funds (Note 14)	343,324
Capital Improvement Bond Proceeds	
Receivable (Note 4)	755,476
Interest Receivable	<u>2,745</u>
Total Unexpended	<u>1,455,902</u>

Retirement of Indebtedness:

Cash and Cash Equivalents (Note 17)	697,525
Interest Receivable	10,526

Total Retirement of Indebtedness	<u>708,051</u>
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Investment in Plant:

Land and Land Improvements	2,535,821
Leasehold Improvements (Note 7)	50,408
Buildings	50,360,858
Construction in Progress (Note 16)	365,178
Equipment	1,443,827
Equipment Under Capital Lease (Note 7)	255,713
Equipment Under Installment Notes (Note 8)	741,571
Library Collection	<u>3,245,244</u>
Total Investment in Plant	<u>58,998,620</u>
Total Plant Funds	<u>\$61,162,573</u>

PLANT FUNDS

Unexpended:

Accrued Payroll and Related Liabilities	\$ 12,569
Fund Balances:	
Unrestricted, Designated	607,107
Restricted	836,226

Total Unexpended	<u>1,455,902</u>
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Retirement of Indebtedness:

Accrued Interest Payable	94,575
Due to Unrestricted Current Funds	
(Note 14)	79,471

Fund Balances:

Restricted	<u>534,005</u>
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Total Retirement of Indebtedness	<u>708,051</u>
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Investment in Plant:

Capital Lease Obligations (Note 7)	76,459
Notes Payable (Note 6)	2,690,002
Bonds Payable (Note 5)	515,000
Installment Note Payable (Note 8)	457,838
Net Investment in Plant	55,259,321

Total Investment in Plant	<u>58,998,620</u>
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Total Plant Funds	<u>\$61,162,573</u>
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LANDER UNIVERSITY
Balance Sheet
University Funds and Discretely Presented Component Units
June 30, 1999

<u>ASSETS</u>		<u>LIABILITIES, NET ASSETS, AND FUND BALANCES</u>	
AGENCY FUNDS		AGENCY FUNDS	
Due from Others	\$ 48,182	Deposits Held for Others	\$ 16,169
		Due to Unrestricted Current Funds	
		(Note 14)	32,013
Total Agency Funds	\$ <u>48,182</u>	Total Agency Funds	\$ <u>48,182</u>
COMPONENT UNITS		COMPONENT UNITS	
Student Loans Receivable (Note 15)	\$ 20,333	Due to Component Unit (Note 21)	\$ 183,010
Investments (Note 17)	10,783,446	Accounts Payable	72,335
Investments in Real Estate	232,899	Net Assets of Foundation:	
Unconditional Promises to Give (Note 21)	20,000	Unrestricted	3,466,181
Due from Component Unit (Note 21)	183,010	Temporarily Restricted	167,387
Fixed Assets (Net of Accumulated Depreciation		Permanently Restricted	7,167,765
of \$6,367)	46	Fund Balance, Unrestricted	
		of Alumni Association	183,056
Total Component Units	\$ <u>11,239,734</u>	Total Component Units	\$ <u>11,239,734</u>

The accompanying notes are an integral part of this financial statement.

LANDER UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1999

	CURRENT FUNDS			PLANT FUNDS			TOTALS- (MEMORANDUM (ONLY))
	UNRESTRICTED	RESTRICTED	LOAN FUNDS	UNEXPENDED	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	
Revenues and Other Additions:							
Unrestricted Current Fund Revenues	\$24,558,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$24,558,139
U.S. Government Advances	-	-	31,377	-	-	-	31,377
Federal Grants and Contracts-Restricted	-	1,930,384	-	-	-	-	1,930,384
State Appropriations-Restricted (Note 3)	-	1,225,134	-	-	-	-	1,225,134
State Grants and Contracts-Restricted	-	53,548	-	-	-	-	53,548
Private Gifts, Grants and Contracts- Restricted (Note 21)	-	1,129,004	-	8,534	-	79,093	1,216,631
Interest Income-Restricted	-	-	2,995	18,853	81,788	-	103,636
Reimbursement of Previously Canceled Loans	-	-	20,989	-	-	-	20,989
Interest on Student Loans Receivable	-	-	27,096	-	-	-	27,096
Expended for Plant Facilities (Including \$289,834 Charged to Current Funds Expenditures)	-	-	-	-	-	741,732	741,732
Retirement of Indebtedness (Including \$173,789 Charged to Current Funds Expenditures) (Notes 7 and 8)	-	-	-	-	-	348,876	348,876
Student Fees	-	-	-	45,045	-	-	45,045
Total Revenues and Other Additions	<u>24,558,139</u>	<u>4,338,070</u>	<u>82,457</u>	<u>72,432</u>	<u>81,788</u>	<u>1,169,701</u>	<u>30,302,587</u>
Expenditures and Other Deductions:							
Educational and General Expenditures	19,830,741	4,276,617	-	-	-	-	24,107,358
Auxiliary Enterprises Expenditures	4,133,675	6,156	-	-	-	-	4,139,831
Indirect Cost Recoveries Remitted to State	14,214	-	-	-	-	-	14,214
Indirect Costs Recovered	-	28,058	-	-	-	-	28,058
Loan Cancellations and Write-Offs	-	-	28,642	-	-	-	28,642
Administrative and Collection Costs	-	-	6,448	-	2,083	-	8,531
Expended for Plant Facilities (Including Noncapitalized Expenditures of \$71,222)	-	-	-	523,120	-	-	523,120
Retirement of Indebtedness	-	-	-	-	175,087	-	175,087
Interest and Executory Fees on Indebtedness	-	-	-	-	189,918	-	189,918
Disposal of Plant Facilities	-	-	-	-	-	146,880	146,880
Refunded to Grantor	-	-	632	-	-	-	632
Total Expenditures and Other Deductions	<u>23,978,630</u>	<u>4,310,831</u>	<u>35,722</u>	<u>523,120</u>	<u>367,088</u>	<u>146,880</u>	<u>29,362,271</u>

LANDER UNIVERSITY
Statement of Changes in Fund Balances
For the Year Ended June 30, 1999

	CURRENT FUNDS				PLANT FUNDS		
			LOAN		RETIREMENT	INVESTMENT	TOTALS-
	UNRESTRICTED	RESTRICTED	FUNDS	UNEXPENDED	OF INDEBTEDNESS	IN PLANT	(MEMORANDUM
							(ONLY)
Transfers Among Funds - Additions/(Deductions):							
Mandatory:							
Principal and Interest (Notes 5 and 6)	(2,305,628)	-	-	-	2,305,628	-	-
Renewals and Replacements (Notes 6 and 9)	-	-	-	30,000	(30,000)	-	-
Loan Fund Matching Grant	(10,446)	-	10,446	-	-	-	-
Nonmandatory (Note 9):							
Transfers from Retirement of Indebtedness							
Funds for Auxiliary Enterprise Operations	1,978,813	-	-	-	(1,978,813)	-	-
Transfers from Current Funds for Allocation							
of Student Fees	(104,650)	-	-	104,650	-	-	-
Total Transfers	(441,911)	-	10,446	134,650	296,815	-	-
Net Increases (Decreases) for the Year	137,598	27,239	57,181	(316,038)	11,515	1,022,821	940,316
Fund Balances - Beginning of Year, as Previously							
Reported or as Restated (Note 20)	(349,515)	96,076	1,289,737	1,759,371	522,490	54,236,500	57,554,659
Fund Balances (Deficit) - End of Year	(211,917)	123,315	1,346,918	1,443,333	534,005	55,259,321	58,494,975

The accompanying notes are an integral part of this financial statement.

LANDER UNIVERSITY

Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1999

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Revenues:			
Student Tuition and Fees	\$ 9,475,155	\$ -	\$ 9,475,155
State Appropriations (Note 3)	9,973,094	1,225,134	11,198,228
Federal Grants and Contracts	31,793	1,900,234	1,932,027
State Grants and Contracts	-	62,991	62,991
Private Gifts, Grants and Contracts	-	1,094,414	1,094,414
Interest Income	1,796	-	1,796
Sales and Services of Auxiliary Enterprises	4,752,133	-	4,752,133
Other Sources	<u>324,168</u>	<u>-</u>	<u>324,168</u>
Total Current Revenues	<u>24,558,139</u>	<u>4,282,773</u>	<u>28,840,912</u>
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	9,305,453	525,936	9,831,389
Research	-	16,113	16,113
Public Service	26,132	131,056	157,188
Academic Support	1,516,081	52,426	1,568,507
Student Services	2,583,082	41,911	2,624,993
Institutional Support	2,760,301	22,100	2,782,401
Operation and Maintenance of Plant	2,665,717	7,851	2,673,568
Scholarships and Fellowships	<u>973,975</u>	<u>3,479,224</u>	<u>4,453,199</u>
Total Educational and General Expenditures	<u>19,830,741</u>	<u>4,276,617</u>	<u>24,107,358</u>
Mandatory Transfers for Loan Fund Matching Grants	<u>10,446</u>	<u>-</u>	<u>10,446</u>
Total Educational and General	<u>19,841,187</u>	<u>4,276,617</u>	<u>24,117,804</u>
Auxiliary Enterprises:			
Expenditures	4,133,675	6,156	4,139,831
Mandatory Transfers for Principal and Interest	<u>2,305,628</u>	<u>-</u>	<u>2,305,628</u>
Total Auxiliary Enterprises	<u>6,439,303</u>	<u>6,156</u>	<u>6,445,459</u>
Total Expenditures and Mandatory Transfers	<u>26,280,490</u>	<u>4,282,773</u>	<u>30,563,263</u>

LANDER UNIVERSITY
Statement of Current Funds Revenues, Expenditures, and Other Changes
For the Year Ended June 30, 1999

	<u>UNRESTRICTED</u>	<u>RESTRICTED</u>	<u>TOTAL</u>
Other Transfers and Additions/(Deductions):			
Nonmandatory Transfers In	1,978,813	-	1,978,813
Nonmandatory Transfers Out	(104,650)	-	(104,650)
Excess of Restricted Receipts Over Transfers to Revenues	-	27,239	27,239
Indirect Cost Recoveries Remitted to the State General Fund	<u>(14,214)</u>	<u>-</u>	<u>(14,214)</u>
Total Other Transfers and Additions/(Deductions)	<u>1,859,949</u>	<u>27,239</u>	<u>1,887,188</u>
Net Increases in Fund Balances	<u>\$ 137,598</u>	<u>\$ 27,239</u>	<u>\$ 164,837</u>

The accompanying notes are an integral part of this financial statement.

LANDER UNIVERSITY
Component Units Statements of Activities
For the Year Ended June 30, 1999

	Lander Foundation	Lander University Alumni Association (Unaudited)	Totals (Memorandum Only)
CHANGES IN UNRESTRICTED NET ASSETS AND FUND BALANCES			
Support			
Contributions	\$ 279,238	\$ 4,937	\$ 284,175
Lander Foundation	-	46,500	46,500
Investment Income	350,593	18,957	369,550
Net Assets - Released from Restrictions or Satisfaction of Restrictions	<u>848,672</u>	<u>-</u>	<u>848,672</u>
Total Support	<u>1,478,503</u>	<u>70,394</u>	<u>1,548,897</u>
Program Expenses			
Scholarships	475,456	-	475,456
Grants and Other Approved Programs	711,997	-	711,997
Contributions to:			
Lander Foundation	-	17,000	17,000
Lander University	-	16,500	16,500
Supporting Services Expenses			
Management and General:			
Board-Approved Expenses	34,945	21,569	56,514
Insurance	15,912	-	15,912
Property Expenses	2,596	144	2,740
Professional Fees	12,456	-	12,456
Repairs and Maintenance	<u>10,405</u>	<u>-</u>	<u>10,405</u>
Total Expenses	<u>1,263,767</u>	<u>55,213</u>	<u>1,318,980</u>
Increase in Unrestricted Net Assets and Fund Balances	<u>214,736</u>	<u>15,181</u>	<u>229,917</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Support			
Contributions	402,248	-	402,248
Investment Income	278,701	-	278,701
Net Assets - Released from Restrictions or Satisfaction of Restrictions	<u>(848,672)</u>	<u>-</u>	<u>(848,672)</u>
Decrease in Temporarily Restricted Net Assets	<u>(167,723)</u>	<u>-</u>	<u>(167,723)</u>

LANDER UNIVERSITY
Component Units Statements of Activities
For the Year Ended June 30, 1999

	<u>Lander Foundation</u>	Lander University Alumni Association <u>(Unaudited)</u>	Totals (Memorandum <u>Only</u>)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Support			
Contributions	416,280	-	416,280
Investment Income	<u>570,886</u>	<u>-</u>	<u>570,886</u>
Increase in Permanently Restricted Net Assets	<u>987,166</u>	<u>-</u>	<u>987,166</u>
Increase in Net Assets/Fund Balances	1,034,179	15,181	1,049,360
Net Assets/Fund Balance - Beginning of Year	<u>9,767,154</u>	<u>167,875</u>	<u>9,935,029</u>
Net Assets/Fund Balance - End of Year	<u>\$10,801,333</u>	<u>\$183,056</u>	<u>\$10,984,389</u>

The accompanying notes are an integral part of this financial statement.

LANDER UNIVERSITY
Component Units Statements of Cash Flows
For the Year Ended June 30, 1999

	Lander Foundation	Lander University Alumni Association (Unaudited)	Totals (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES			
Increase in Net Assets/Fund Balances	\$1,034,179	\$15,181	\$1,049,360
Adjustments to Reconcile Change in Net Assets/Fund Balances to Net Cash Provided by Operating Activities:			
Depreciation Expense	-	144	144
(Increase) Decrease in Operating Assets:			
Student Loans Receivable	(6,506)	-	(6,506)
Unconditional Promises to Give	(725)	-	(725)
Due from Lander Foundation	-	(20,586)	(20,586)
Increase (Decrease) in Operating Liabilities:			
Due to Alumni Association	20,586	-	20,586
Accounts Payable	<u>72,335</u>	<u>-</u>	<u>72,335</u>
Net Cash Provided by (Used for) Operating Activities	<u>1,119,869</u>	<u>(5,261)</u>	<u>1,114,608</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Increase in Investments	(1,344,072)	-	(1,344,072)
Increase in Investments in Real Estate	<u>(62,729)</u>	<u>-</u>	<u>(62,729)</u>
Net Cash Used for Investing Activities	<u>(1,406,801)</u>	<u>-</u>	<u>(1,406,801)</u>
Net Decreases in Cash and Cash Equivalents	(286,932)	(5,261)	(292,193)
Beginning Cash and Cash Equivalents	<u>286,932</u>	<u>5,261</u>	<u>292,193</u>
Ending Cash and Cash Equivalents	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

The accompanying notes are an integral part of this financial statement.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lander University conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) *Industry Audit Guide Audits of Colleges and Universities* recognized by the Governmental Accounting Standards Board (GASB) as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, and as modified by all applicable GASB pronouncements. GASB is the recognized standard - setting body for GAAP for all state governmental entities including colleges and universities. The aforementioned FASB pronouncements are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University and all of its component units blended in the primary entity.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government unless the organization holds all of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.
- (2) Levies taxes or sets rates or charges without approval by another government.
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined this financial reporting entity includes the University (a primary entity) and all of its component units.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-101-30 of the Code of Laws of South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is the governing body of the University. The Board administers, has jurisdiction over, and is responsible for the management of the University. Fifteen of its members are elected by the General Assembly (two from each Congressional district and three from the State at-large) and one member is appointed by the Governor. The Governor or his designee serves on the Board as an ex-officio member.

The accompanying financial statements present the University's financial position, changes in fund balances and current funds revenues, expenditures, and other changes and the activities and cash flows of its discretely presented component units of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University and its component units.

Based on the application of the above criteria, certain component units are included in the reporting entity because of the significance of their operational or financial relationships with the University. The following identifies the University's component units and the methods of reporting them in these financial statements.

Component Units Blended in Primary Entity In Discrete Column Presentation

(1) Lander Foundation (the Foundation) is a nonprofit eleemosynary corporation whose purpose is to receive, hold, manage, invest or arrange for investing; to acquire by gift, devise, bequest, purchase or otherwise; and to use property of any kind and funds in furtherance of Lander University. Several key employees of the University are also members and officers of the Foundation's Board of Trustees. The component unit is included as part of the primary entity because the University believes its exclusion would render the financial statements incomplete or misleading. The separately issued audited financial statements of the Foundation may be obtained from the University.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Units Blended in Primary Entity In Discrete Column Presentation (Continued)

(2) Lander University Alumni Association (the Alumni Association) is a nonprofit eleemosynary corporation whose purpose is to promote academic improvements, to assist in scholarship programs, to further the interests of the University, and to promote among its present and former students and friends a spirit of good fellowship and loyalty. The component unit is included as part of the primary entity because the Alumni Association provides services entirely to and for the benefit of the University. Information relating to the financial statements of the Alumni Association can be obtained from the University. The Alumni Association's financial statements were compiled by the Association and are unaudited.

Presentation of Component Units

Some component units, despite being legally separate from the University (the primary entity), are so intertwined with it that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable university fund groups as if they were balances and transactions of the primary entity or reported in discrete columns and included in the "primary entity" totals.

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns, separate balance sheet categories, or on separate financial statements of the primary entity or in columns or categories separate from the financial data of the primary entity. In all presentation methods, the information on the financial statements are labeled "component units."

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received and available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library collection resources; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

The University records receipts from operations of auxiliaries in unrestricted current funds as auxiliary enterprises revenue. Mandatory transfers from auxiliary enterprises revenue for debt service on bonds and notes payable are made from unrestricted current funds to the funds of the retirement of indebtedness plant funds subgroup and for repair and replacement reserve funds to unexpended plant funds.

Basis of Accounting - Discretely Presented Component Units

The University's discretely presented component units conduct business-like activities similar to those found in the private sector. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of financial position or net assets, changes in net assets and fund balances, and cash flows. The Foundation reviewed GASB Statement 29, The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities and determined that it was a nongovernmental not-for-profit. The accounting policies of the Lander Foundation conform to GAAP applicable to the not-for-profit model as prescribed by the Financial Accounting Standards Board (FASB). This entity uses the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The statements of activities report changes in net assets in total and separately in the applicable net asset classes. Furthermore, equity is distinguished among the classes of assets restrictions.

The Lander Foundation invested in several categories of investments and reported its cash flows from investing activities as a net increase in investments. FASB Statement No. 95 requires the entity to report gross amounts of its cash receipts and cash payments. We did not determine the amounts that should have been reported.

The Lander Alumni Association has not disclosed which reporting model it applies and follows the cash basis of accounting except for the recognition of depreciation on fixed assets which are not GAAP. The Alumni Association recognizes contributions when collected and expenditures when paid.

Fund Accounting - University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary mission of the University, which is instruction, and to perform any research or public service activities which may be undertaken. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

Current Funds Auxiliary Enterprises are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as current funds. Assets, liabilities, and fund balances are combined with other current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include housing and student health services, bookstore, food services, and vending.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, collectibility reserves, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers. At this time, the University has no donor-provided resources for loans.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting - University Funds (Continued)

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources to finance the acquisition of long-life assets including student fees specifically assessed for plant expansion and to provide for routine renewal and replacement of existing plant assets; debt related to unexpended resources; and repair and replacement reserve funds. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges (except those for capital lease obligations and installment notes payable) related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

Fund Accounting - Discretely Presented Component Units

The University's component units are nongovernmental not-for-profit organizations. These entities apply pronouncements issued by the FASB. Both entities maintain their accounting records on a fund basis. The Foundation reports its activities according to the three classes of net assets. However, the Alumni Association reports its activities in an unrestricted fund.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored grants, contracts, and loan programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current and loan funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave, except that most faculty members do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Principal and interest on such contracts are recorded as expenditures in the current funds group and the retirement of the debt is recorded in the investment in plant funds as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University which reports these assets as land and land improvements and values them at cost.

Construction expenditures for major additions and renovations to plant facilities are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup. Upon completion of a project, the costs are capitalized in the appropriate asset accounts in investment in plant.

Library books, periodicals, microfilms, and other library collection materials are recorded at cost when purchased or fair market value at the date of donation in the library collection account. Library book deletions are written off at year-end at average cost based on the actual number of volumes deleted. Periodical deletions are written off at year-end based on actual cost.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Plant (Continued)

The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of \$5,000 and a useful life in excess of one year; and all library materials.

When plant assets other than library collection materials are sold, retired, or otherwise disposed of, the carrying value at cost or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest

The University does not capitalize as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup do not include such interest costs. Omission of capitalized interest is not in conformity with GAAP. However, the University believes asset values are not significantly understated by this omission.

Deferred Revenues

In unrestricted current funds, deferred revenues primarily consist of student tuition and fees and room and board collected in advance for the summer and fall academic terms. If student financial aid collected exceeds tuition and fees, the University will issue student refunds. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

Student Deposits

Student deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Prepaid Items

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of credits on account for returned textbook inventories.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 17.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. The University reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

For the component units, cash equivalents include investments in short-term, highly liquid, unrestricted, nonequity investments having a maturity at the time of purchase of three months or less.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds and for the component units involved. Reimbursement transactions for expenditures initially made by one fund or component unit that are applicable to another are recorded as expenditures in the reimbursing fund or component unit.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intraentity Transactions and Balances (Continued)

All expenditures and other intraentity transactions and balances between the University and its discretely presented component units or between those component units are reported separately. Revenues and expenditures with component units are not separately identified in the financial statements but are disclosed in the notes. Receivables/payables between the primary entity and its discretely presented component units are reported separately as inter-reporting entity/component unit transactions.

Current amounts due to/from the same funds, between the University and its component units, or between component units are reported net on the balance sheet only if there is a legal right to the offset.

Totals (Memorandum Only) Columns

Amounts in the "Totals (Memorandum Only)" columns of the financial statements present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data.

Accounting Policies of Discretely Presented Component Units

Significant accounting policies of the University's discretely presented component units are described below. Whereas, general disclosures for such entities are separately identified within each applicable note.

Lander Foundation is a nongovernmental not-for-profit component unit which follows GAAP applicable to the FASB not-for-profit model. GAAP requires this entity to report information regarding financial position and activities in total and separately according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets and to present a statement of cash flows. Furthermore, equity is distinguished among the classes of assets restrictions. Investments are reported at current market value. Gains or losses that result from market fluctuations are recorded in the period in which the fluctuations occur. Investments in real estate are recorded at cost, if purchased, and at fair market value as of the date received, if received as a gift. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to current net assets.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. Donated assets are recorded at their estimated fair value at date of receipt. Commitments for scholarships and grants from unrestricted net assets are generally budgeted on a yearly basis and expended within that operating cycle. Commitments of restricted net assets for scholarships and grant purposes are varied and are controlled by various legal requirements of each gift or grant. Permanently restricted assets consist primarily of endowment fund investments to be held indefinitely, the income from which is expendable to support the various programs of the University.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 2 - DEFICIT FUND BALANCE

The University records accrued compensated absences and related liabilities for leave benefits as they are earned by employees based on the requirements of GASB Statement No. 16 Accounting for Compensated Absences. The State establishes leave policy, but it does not fund the related liability for the University's employees funded from State General Fund appropriations until employees are paid for the leave. Also, the University does not accumulate assets to fund the liability to be paid to employees funded from other revenue sources. The difference between the funding policy and the required accounting treatment affected the components of fund balance of unrestricted current funds at June 30, 1999, as follows:

	Fund Balance Prior to Compensated <u>Absences Accrual</u>	Accrued Compensated Absences and Related <u>Liabilities</u>	Fund Balance (Deficit)
Auxiliary Enterprises	\$597,105	\$ 33,697	\$ 563,408
Educational and General, Unallocated	<u>190,524</u>	<u>965,849</u>	<u>(775,325)</u>
Total Fund Balance, Net	<u>\$787,629</u>	<u>\$999,546</u>	<u>\$(211,917)</u>

NOTE 3 - STATE APPROPRIATIONS

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 3 - STATE APPROPRIATIONS (CONTINUED)

The original appropriation is the University's base budget amount presented in the General Funds column of Section 5H of Part IA of the 1998-99 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1999:

Original Appropriation	\$ 8,966,415
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related	
Employee Benefits (Proviso 63C.12.)	149,130
For Employer Contributions (Proviso 73.22)	18,887
For Health and Dental Insurance - Retirees	9,728
For Annualization of Pay Plan	49,945
Appropriation Allocations from the State	
Commission on Higher Education:	
From Supplemental Appropriations of 1998	
Surplus State General Fund Revenues (Part III of the	
1999 Appropriation Act) for Access and Equity	
Competitive Grant	15,990
From Children's Education Endowment Fund for:	
Palmetto Fellows Scholarships	132,746
Need-Based Grants	398,822
For Access and Equity Desegregation Funding	
(Proviso 5A.7.)	4,425
For Performance Funding (Proviso 5A.26.)	206,750
For LIFE Scholarships (1998 Act 418)	667,466
For STAR Scholarships (from EIA funding)	24,500
For Higher Education Awareness Program (HEAP)	
(from EIA funding)	1,600
From State Higher Education Matching Gift Fund	
for Academic Endowment Match	67,862
From Capital Reserve Fund Appropriations (June 1998	
Joint Resolution R537, H4702)for Institutional Funding	<u>522,008</u>
Revised Appropriations - Legal Basis	11,236,274
Accrued Funding for Net Payroll Accrual Adjustments	<u>(38,046)</u>
State Appropriations Revenue - Accrual Basis	11,198,228
Less: Higher Education Grant/Scholarship and HEAP Funding	
Reported in Restricted Current Funds	<u>(1,225,134)</u>
Funding Reported in Unrestricted Current	
Funds	\$ <u><u>9,973,094</u></u>

Certain of the University's payroll expenditures are funded from State General Fund appropriations. The "state appropriations receivable" reported in unrestricted current funds represents monies due from the State General Fund for applicable University personal services and employer contributions expenditures accrued at June 30 but paid in July from fiscal year 2000 appropriations. State law provides for such payroll costs to be paid from the next year's appropriations.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 4 - STATE CAPITAL IMPROVEMENT BONDS

In prior years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds subgroups. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance receivable for the undrawn portion of the authorization is reported in the balance sheet as "capital improvement bond proceeds receivable." A summary of the activity in the balance available from this authorization during the year ended June 30, 1999, follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1999</u>	<u>Balance Authorized June 30, 1999</u>
111 of 1997	<u>\$3,325,000</u>	<u>\$1,904,923</u>	<u>\$664,601</u>	<u>\$755,476</u>

Subsequent Event

Signed by the Governor on June 1, 1999, and effective on July 1, 1999, Act 28 of 1999 authorized \$988,000 for the renovation of campus electronic communications infrastructure. These funds will be available to the University in fiscal year 2000.

NOTE 5 - BONDS PAYABLE

At June 30, 1999, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1999 Balance</u>	<u>1999 Maturities</u>
Student and Faculty Housing Revenue Bonds Series 1976 A	8.0%	July 1, 2002	<u>\$515,000</u>	<u>\$120,000</u>

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. The bonds payable have priority over any other claims to this revenue. Mandatory transfers from auxiliary enterprises revenue for debt retirement on these bonds are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 5 - BONDS PAYABLE (CONTINUED)

The bond resolution specifies the University must maintain a \$170,000 debt service reserve fund and an amount equal to one half the next principal payment due in a debt service account on deposit with the bond fiscal agent, the trust department of a financial institution. At June 30, 1999, the University had \$218,503 on deposit in the debt service reserve fund and \$65,000 on deposit in the debt service account.

Beginning July 1, 1985, certain of the bonds may be redeemed at a premium prior to the mandatory redemption dates and final maturities at the option of the trustee. The redemption prices (expressed as a percentage of the principal redeemed) for the bonds are 2.5 percent through January 1, 1997, and 2 percent thereafter.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 1999, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	130,000	36,000	166,000
2001	145,000	25,000	170,000
2002	155,000	13,000	168,000
2003	<u>85,000</u>	<u>3,400</u>	<u>88,400</u>
Total Obligations	<u>\$515,000</u>	<u>\$77,400</u>	<u>\$592,400</u>

The University reported interest expenditures of \$41,200 related to the bonds for the year ended June 30, 1999.

NOTE 6 - NOTE PAYABLE

At June 30, 1999, Lander University had a note payable outstanding, as follows:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1999 Balance</u>	<u>1999 Maturities</u>
Student and Faculty Housing 1988 Note	5.5%	July 1, 2022	<u>\$2,690,002</u>	<u>\$55,087</u>

Revenue received for student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on the student and faculty housing note except that debt service on this note payable to the U.S. Department of Education (DOE) is subordinate to that on the University's student and faculty housing revenue bonds.

Semiannual payments of \$102,660 including principal and interest are due on January 1 and July 1 each year.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 6 - NOTE PAYABLE (CONTINUED)

As required by the note agreement, the University must establish debt service and repair and replacement reserve accounts and deposit \$25,665 semiannually into the debt service reserve account until \$205,320 has been accumulated. Once the University has met the full debt service reserve requirement, the University must deposit \$30,000 annually into a repair and replacement reserve account until \$300,000 has been accumulated. The debt service and repair/replacement reserves monies for this note are on deposit in State Treasurer accounts. At June 30, 1999, the University's debt service reserve account was fully funded. In the current year, the University transferred \$30,000 into the repair and replacement reserve account. The balance in the repair and replacement reserve account was \$174,433 of which \$120,000 was restricted for repairs and maintenance of facilities. The excess amount above the required amount is accumulated interest not transferred to the University by the trustee. The debt service reserve account and the repairs and replacement account are accounted for in the retirement of indebtedness and unexpended plant funds subgroups, respectively.

Amounts including interest required to complete payment of the revenue bond obligations as of June 30, 1999, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	58,159	147,161	205,320
2001	61,402	143,918	205,320
2002	64,825	140,495	205,320
2003	68,440	136,880	205,320
2004	72,256	133,064	205,320
2005 through 2022	<u>2,364,920</u>	<u>1,433,503</u>	<u>3,798,423</u>
Total Obligations	<u>\$2,690,002</u>	<u>\$2,135,021</u>	<u>\$4,825,023</u>

The University reported interest expenditures of \$148,718 related to the note for the year ended June 30, 1999.

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Notes to Financial Statements
June 30, 1999

NOTE 7 - LEASE OBLIGATIONS

The University is obligated under various operating leases for the use of real property (land, buildings, dormitories and office facilities) and equipment. In addition, the entity is obligated under a capital lease for the acquisition of computer equipment.

Future commitments for the capital lease and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 1999, were as follows:

<u>Year Ending June 30</u>	<u>Capital Lease</u>	<u>Operating Leases</u>	
	<u>Equipment</u>	<u>Real Property</u>	<u>Equipment</u>
2000	\$43,408	\$ 250,000	\$ 39,844
2001	43,408	250,000	35,706
2002	-	250,000	31,696
2003	-	250,000	19,967
2004	-	-	1,868
Total Minimum Lease Payments	86,816	<u><u>\$1,000,000</u></u>	<u><u>\$129,081</u></u>
Less: Interest	(10,357)		
Principal Outstanding/Present Value of Net Minimum Payments	<u><u>\$76,459</u></u>		

Capital Lease

The capital lease is payable in monthly installments and expires in fiscal year 2001. The University records current year debt service as expenditures in unrestricted current funds and simultaneously records reduction of principal in the investment in plant funds subgroup. Capital lease expenditures for fiscal year 1999 were \$43,408, of which \$11,748 represented interest. The interest rate is 12.51%.

The computer equipment lease requires the University to maintain the equipment in good repair and provides the University the option to purchase the equipment at fair market value at anytime during the lease term with thirty days notice to the lessor.

The carrying value of the computer equipment held under capital lease at June 30, 1999 is \$255,713.

The University had no capital leases with related parties in the current fiscal year.

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2001 through 2004. In the normal course of business, operating leases are generally renewed or replaced by other leases. The University's noncancelable real property operating lease is payable on an annual basis and its noncancelable equipment operating leases are generally payable on a monthly basis. All of the University's noncancelable equipment operating leases are for copiers. Lease payments include maintenance of the copiers and all supplies except paper. Future commitments for noncancelable equipment operating leases do not include tiered overage charges for copies in excess of the base amount.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 7 - LEASE OBLIGATIONS (CONTINUED)

During fiscal year 1997, the University entered into an operating lease with the County of Greenwood for property to be used by the University's athletic programs. The lease term is 50 years effective July 1, 1996, at the rental rate of one dollar per year. Greenwood County may continue to use the property 3 months each year, rent free, for its youth baseball program. The University has incurred \$50,408 of unexpended plant funds expenditures for the baseball field which is capitalized as leasehold improvements in the investment in plant funds subgroup.

Total operating lease expenditures in 1999 were \$251,767 for real property and \$48,216 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

The University had no operating leases with related parties in the current fiscal year.

NOTE 8 - INSTALLMENT NOTES PAYABLE

The University is obligated under installment purchase agreements for the acquisitions of computer software and a telephone switching system. With a fund maturity in fiscal year 2001, the monthly payments on a continuing computer software agreement include principal plus interest at 6.08%. In the prior year, the University made borrowings under the State Treasurer's Master Lease Program by a bank note payable to acquire a telephone switching system. That agreement requires semiannual payments of principal plus interest at 4.62%. Installment note expenditures for fiscal year 1999 were \$170,897 of which \$28,768 represented interest.

Amounts including interest required to complete payment of obligations as of June 30, 1999, are as follows:

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$150,115	\$20,782	\$170,897
2001	158,561	12,336	170,897
2002	72,877	6,063	78,940
2003	<u>76,285</u>	<u>2,655</u>	<u>78,940</u>
Total Obligations	<u>\$457,838</u>	<u>\$41,836</u>	<u>\$499,674</u>

The University records unrestricted current funds expenditures for the current year debt service requirements and simultaneously records reduction of principal in the investment in plant funds subgroup.

The installment notes payable are collateralized by assets with a carrying value of \$741,571. (\$392,735 for the computer software and \$348,836 for the telephone switching system).

Subsequent Event

In July 1999, the University paid \$296,570 in principal, interest, and a 2% prepayment penalty to liquidate its remaining obligations on the telephone switching system installment note which had a final maturity in April 2003. At June 30, 1999, the University's principal and interest obligations included in the schedule above for this note are \$285,296 and \$30,466, respectively.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 9 - NONMANDATORY TRANSFERS

Revenues pledged for debt service when collected are recorded as revenue in the unrestricted current funds and immediately transferred to the retirement of indebtedness plant funds subgroup. Once the University has met the full debt service reserve requirements, the DOE note agreement requires the University to fund a repair and replacement reserve which is reported in the unexpended plant funds. After making that mandatory transfer, the balance of pledged revenue collections remain in the debt service accounts of the retirement of indebtedness plant funds until they are transferred by the State Treasurer into an account for housing auxiliary enterprise operations which the University reports in unrestricted current funds. The funds become available for transfer because of the maintenance of minimum balances including reserves and accounts for repair and replacement and for payment of debt service as required by bond indentures and law. A request for the transfer of funds in excess of required minimum balances is made by the University to the State Treasurer. In fiscal year 1999, the University made a nonmandatory transfer of \$1,978,813 from the retirement of indebtedness plant funds subgroup to unrestricted current funds to finance housing auxiliary enterprise operations.

The University made nonmandatory transfers of \$104,650 from unrestricted current funds to the unexpended plant funds subgroup for general project funding. The source of these funds was maintenance and repair fees.

NOTE 10 - PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 10 - PENSION PLANS (CONTINUED)

A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 1999, 1998, and 1997, were \$840,227, \$827,494, and \$785,663, respectively, and equalled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$16,694 in the current fiscal year at the rate of .15 percent of compensation.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 12.33 percent which, as for the SCRS, included the 2.03 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 1999, 1998, and 1997, were \$34,134, \$37,313, and \$38,211, respectively, and equalled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$663 and accidental death insurance contributions of \$663 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 10 - PENSION PLANS (CONTINUED)

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

At retirement, employees participating in the SCRS or PORS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.03 percent from the employer in fiscal year 1999.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$109,714 (excluding the surcharge) from the University as employer and \$87,190

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 10 - PENSION PLANS (CONTINUED)

from its employees as plan members. In addition, the University paid \$2,180 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

NOTE 11 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 19,170 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable fund subgroup and functional expenditure categories for these insurance benefits for active employees in the amount of \$751,201 for the year ended June 30, 1999. As discussed in Note 10, the University paid \$262,142 applicable to the 2.03 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

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Notes to Financial Statements
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NOTE 12 - DEFERRED COMPENSATION PLANS

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 13 - INVENTORIES

Inventories for internal use are valued at cost. University bookstore inventories for resale are valued at the lower of cost or market using both the weighted average and first-in, first-out methods of valuing inventory. The University recorded an obsolescence allowance of \$2,000 as of June 30, 1999. The following is a summary by inventory category of cost determination method and value at June 30, 1999:

<u>Category</u>	<u>Method</u>	
Textbooks - New	Weighted Average	\$ 59,878
Textbooks - Used	Weighted Average	64,860
Merchandise	First-in, first-out	<u>70,372</u>
		<u>\$195,110</u>

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Notes to Financial Statements
June 30, 1999

NOTE 14 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, the amount due to unrestricted current funds from retirement of indebtedness funds are funds that are not restricted for debt service and available for housing operations. All of the amounts are payable within one year without interest. Individual interfund balances outstanding at June 30, 1999, were as follows:

	<u>Receivable</u>	<u>Payable</u>
Unrestricted Current Funds:		
Restricted Current Funds	\$263,732	\$ -
Loan Funds	-	44,324
Unexpended Plant Funds	-	343,324
Retirement of Indebtedness Plant Funds	79,471	-
Agency Funds	<u>32,013</u>	<u>-</u>
Total Unrestricted Current Funds	<u>375,216</u>	<u>387,648</u>
Restricted Current Funds:		
Unrestricted Current Funds	<u>-</u>	<u>263,732</u>
Loan Funds:		
Unrestricted Current Funds	<u>44,324</u>	<u>-</u>
Unexpended Plant Funds:		
Unrestricted Current Funds	<u>343,324</u>	<u>-</u>
Retirement of Indebtedness Plant Funds:		
Unrestricted Current Funds	<u>-</u>	<u>79,471</u>
Agency Funds:		
Unrestricted Current Funds	<u>-</u>	<u>32,013</u>
Totals	<u>\$762,864</u>	<u>\$762,864</u>

NOTE 15 - ACCOUNTS RECEIVABLE AND STUDENT LOANS RECEIVABLE

With minor exceptions, losses for student loans receivable and student accounts receivable are estimated based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 1999, the allowance for student loans receivable in loan funds is valued at \$175,999 and the allowance for student accounts receivable in unrestricted current funds is valued at \$107,837.

The University's component unit, the Lander Foundation, has not established an allowance for potential losses on student accounts receivables due to a low default rate.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 16 - CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the renovation and equipping of Barrett Hall which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of the project which is expected to be completed in fiscal year 2000 at an estimated total cost of \$750,000. Of the total cost, approximately \$384,800 is unexpended at June 30, 1999. Of the unexpended balance at June 30, 1999, the University had remaining commitment balances of \$11,562 with certain vendors related to the project. Construction in progress for Barrett Hall at June 30, 1999 is reported in investment in plant funds at \$365,178.

The University anticipates funding this project out of state capital improvement bond proceeds.

The University capitalized \$101,198 in investment in plant funds for additions to buildings and leasehold improvements, a new soccer press box, and equipment which it had expended from unexpended plant funds. The University recorded \$71,222 in noncapitalized expenditures in unexpended plant funds. At June 30, 1999, the University did not have any projects in progress which will not be capitalized upon completion.

NOTE 17 - DEPOSITS AND INVESTMENTS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited or invested with or managed by financial institutions and brokers with the approval of the State Treasurer's Office. Deposits and investments of the University's component units are not under the State Treasurer's control.

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash Equivalents	\$ 2,117,423	Cash on Hand	\$ 8,471
Investments	10,783,446	Deposits Held by State Treasurer	1,758,033
		Other Deposits	350,919
		Component Unit:	
		Deposits Held by Broker for Investment	316,391
		Investments	<u>10,467,055</u>
	<u>\$12,900,869</u>		<u>\$12,900,869</u>

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 17 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1999, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

As disclosed in Note 6, the University must maintain debt service reserve and repair and replacement reserve accounts for its DOE note payable. At June 30, 1999, the retirement of indebtedness plant funds include \$205,320 restricted cash for the debt service reserve and the unexpended plant funds include \$120,000 restricted cash for the repair and replacement reserve as required by the note agreement. In addition, the retirement of indebtedness plant funds include \$188,260 restricted for July 1, 1999, principal and interest payments. This restricted cash is held by the State Treasurer.

Other Deposits and Component Unit Deposits

As disclosed in Note 5, the University must maintain debt service reserve and principal accounts for the bonds payable. At June 30, 1999, the retirement of indebtedness plant funds include \$170,000 restricted cash for debt service reserve funds and \$65,000 restricted cash for principal payment as required by the bond indentures. The restricted cash is on deposit with financial institutions. The total debt service deposits of \$283,503 (including the \$48,503 in excess of reserve requirements) are uncollateralized but are invested in a pooled fixed income fund which is collateralized by government securities invested in the name of the financial institution.

The University's other deposits are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. There are three categories of deposit credit risk as follows:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name. (Not held by the bank)
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- (3) Uninsured or uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution but not in the entity's name.)

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Notes to Financial Statements
June 30, 1999

NOTE 17 - DEPOSITS AND INVESTMENTS (CONTINUED)

A summary of June 30, 1999, bank balances by risk category follows:

	<u>Category</u>			<u>Bank</u>	<u>Reported</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Amount</u>
Bank Deposits:					
Lander University	\$ 83,946	\$ -	\$283,503	\$367,449	\$350,919
Component Units	<u>143,655</u>	<u>-</u>	<u>66,634</u>	<u>210,289</u>	<u>-</u>
	<u>\$227,601</u>	<u>\$ -</u>	<u>\$350,137</u>	<u>\$577,738</u>	<u>\$350,919</u>

Component Unit Investments

The Lander Foundation, a component unit, has investments in securities, as authorized by trust agreement, and investments in real estate. Authorized investments include common trust funds, stocks, and bonds. All investments are stated at fair value. Purchases and sales are accounted for on the transaction date. Unrealized and realized gains and losses on securities transactions are recorded as investment income within support revenue. Earnings are recorded when received.

The Foundation's marketable securities investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Foundation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Foundation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Foundation's name. Deposits held by the broker do not meet the definition of investment securities and are not categorized. All of the Foundation's marketable securities are in risk category 3.

A summary of the securities held by the Foundation by type of investment were as follows at June 30, 1999:

	<u>Reported Amount</u>	<u>Fair Value</u>
<u>Type of Investment</u>		
Government and Corporate Bonds	\$ 3,855,803	\$ 3,855,803
Common Stocks	5,872,045	5,872,045
Common Trust Funds	663,402	663,402
Treasury Bill	<u>75,805</u>	<u>75,805</u>
Total Marketable Securities	<u>\$10,467,055</u>	<u>\$10,467,055</u>
Plus: Temporary Cash Deposits with Broker	<u>\$ 316,391</u>	

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 17 - DEPOSITS AND INVESTMENTS (CONTINUED)

The investment types listed above include all investment types in which Foundation monies were held throughout the fiscal year. The balances by type during the year fluctuated minimally from the year-end balances.

University management has been informed that although the Foundation classified all of its investments as long-term, regardless of maturity date, it intended to turn them over in the short-term to maximize income. Therefore, for the current fiscal year its purchases and sales of investments are reported at net on the statement of cash flows.

NOTE 18 - TRANSACTIONS WITH STATE ENTITIES

The University has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking, bond and note trustee, and investment services from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's Office.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans employee and employer contributions, insurance coverage, office supplies, printing, and telephone and interagency mail services. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 1999 expenditures applicable to these transactions are not readily available.

The University provided no services to other State agencies during the fiscal year. As subrecipient, the University received federal grant funds from other State agencies.

NOTE 19 - CONTINGENCIES AND LITIGATION

The University entered into mediation over the completion of its Old Main construction project in 1996. The settlement terms called for the University to pay the retainage of \$133,437 after the completion of the remaining HVAC work. In fiscal year 1997, the University paid half of the retainage. In fiscal years 1999 and 1998, the University incurred expenditures to complete the work because the contractor did not fulfill its agreement. The University intends to offset these expenditures against the balance of the retainage. It has not recorded a retainage payable in unexpended plant funds. Because the contractor and its assigns cannot be reached, the mediation has not been resolved.

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June 30, 1999

NOTE 19 - CONTINGENCIES AND LITIGATION (CONTINUED)

Also, the University has determined that the Old Main building has structural defects in the bricks. It has informed the performance bond company (because the contractor cannot be reached) and contracted for engineering services to determine the extent of the problems and the cost of correcting them. The University cannot estimate the cost of correcting the defects and does not know if the costs will be covered under the performance bond.

The various federal programs administered by the University for fiscal year 1999 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

NOTE 20 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Accounting principles include not only accounting principles and practices but also the methods of applying them. Prior period adjustments include error corrections (including those involving the application of accounting principles) and accounting changes.

At June 30, 1998, the University recorded accrued expenditures and a retainage payable related to its Old Main project. The contractor did not fulfill the contract; therefore, the University did not pay the retainage amount in fiscal year 1999. (See Note 19 - Contingencies and Litigation.) To complete the Old Main capital project, the University incurred expenditures in fiscal years 1998 and 1999 for work which should have been covered by the retainage withheld from the contractor's billings. Therefore, the University recorded a prior period adjustment to reduce the recorded retainage liability and to increase fund balance. (The accrued expenditures were capitalized in investment in plant funds additions in fiscal year 1996.) The University's fund balance as of July 1, 1998, has been restated as follows:

	Fund Balance - July 1, 1998		
	As Previously <u>Reported</u>	Restatement <u>Adjustment</u>	As <u>Restated</u>
Unexpended Plant Funds Subgroup	\$1,711,736	\$47,635	\$1,759,371

Furthermore, management identified certain errors in the application of accounting principles regarding capitalization of plant assets in its investment in plant funds subgroup.

1. In fiscal year 1998, unexpended plant fund expenditures of \$14,478 for renovation of Barrett Hall were not capitalized. During fiscal year 1999, management determined that the renovation project should be capitalized as construction in progress.
2. The University's policy is to capitalize as buildings the original equipment and furnishings purchased and to expense replacements. Science equipment and furnishings totaling \$87,446 purchased for Old Main in the unexpended plant funds in fiscal year 1998 were not capitalized.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 20 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (CONTINUED)

3. Assets totaling \$52,260 donated to equip the University's curriculum laboratory (library collections) were not capitalized when received in a prior year.

The following restates fund balance as of July 1, 1998, to correct the prior period errors for failure to capitalize donations of and expenditures for plant assets as described above.

	Fund Balance - July 1, 1998		
	As Previously <u>Reported</u>	Restatement <u>Adjustment</u>	As <u>Restated</u>
Investment in Plant Funds Subgroup	\$54,082,316	\$154,184	\$54,236,500

NOTE 21 - COMPONENT UNITS

The Lander Foundation, a nonprofit organization, was established to provide scholarships to worthy students of the University, to provide assistance in aiding and developing University faculty and staff, and to provide other means of support to the University, such as property acquisition and monetary support. The Lander University Alumni Association, also a nonprofit organization, was established by alumni to inform the public about the University. The financial information for these related, separately chartered legal entities has been included in the accompanying financial statements. The Foundation's financial statements available for the year ended June 30, 1999, were audited by independent auditors. The Alumni Association's financial statements were internally compiled by the Association. Various transactions occur between the University and its component units and between the component units.

During the year ended June 30, 1999, the University awarded \$628,496 in academic and athletic scholarships to qualifying students which were funded by the Foundation. In addition, the Foundation gave the University approximately \$355,207 primarily for faculty development grants and the purchase of classroom and laboratory supplies and equipment. These amounts have been included in private gifts, grants and contract revenue in the University's restricted current funds. The University received \$17,000 from the Lander Foundation which it recorded as reimbursement of expenditures in unrestricted current funds. The University used the funds to defray the cost of the Office of University Advancement. The University recorded a \$273,125 receivable from the Lander Foundation in the restricted current fund and a \$26,056 receivable for agreed-upon administrative expenses in the unrestricted current fund. The total of these receivables is an outstanding check on the Lander Foundation's books; therefore, the Foundation has not recorded a corresponding payable.

The University received \$16,500 from the Alumni Association which it recorded as private gifts, grants and contracts revenue in reimbursements of institutional support expenditures in unrestricted current funds and as unexpended plant funds subgroup. The University used the funds to help defray the cost of the Alumni Office, certain student activities, and the construction of the soccer press box.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 21 - COMPONENT UNITS (CONTINUED)

Assets of the Lander Foundation include \$20,000 unconditional promises to give. These receivables balances, due in the next fiscal year, are for pledges for the purchase of computer and science equipment. The Foundation considers the pledges fully collectible.

The Foundation also invests funds for the Lander University Alumni Association. The total amount invested at June 30, 1999, was \$183,010 which is included in the Foundation's financial statements as both an investment and as due to the Alumni Association. This inter-component unit amount includes the initial investment in addition to investment earnings on the Alumni Association funds.

The following presents the statements of financial position at fiscal year-end of the discretely presented, blended component units.

	<u>Lander Foundation</u>	<u>Lander University Alumni Association (Unaudited)</u>	<u>Totals (Memorandum Only)</u>
<u>ASSETS</u>			
Student Loans Receivable	\$ 20,333	\$ -	\$ 20,333
Investments	10,783,446	-	10,783,446
Due from Lander Foundation	-	183,010	183,010
Investments in Real Estate	232,899	-	232,899
Unconditional Promises to Give	20,000	-	20,000
Fixed Assets (Net of Accumulated Depreciation)	<u>-</u>	<u>46</u>	<u>46</u>
Total Assets	<u>\$11,056,678</u>	<u>\$183,056</u>	<u>\$11,239,734</u>
<u>LIABILITIES, NET ASSETS, AND FUND BALANCE</u>			
Liabilities:			
Due to Alumni Association	\$ 183,010	\$ -	\$ 183,010
Accounts Payable	<u>72,335</u>	<u>-</u>	<u>72,335</u>
Total Liabilities	<u>255,345</u>	<u>-</u>	<u>255,345</u>
Net Assets:			
Unrestricted	3,466,181	-	3,466,181
Temporarily Restricted	167,387	-	167,387
Permanently Restricted	7,167,765	-	7,167,765
Fund Balance, Unrestricted	<u>-</u>	<u>183,056</u>	<u>183,056</u>
Total Net Assets and Fund Balance	<u>10,801,333</u>	<u>183,056</u>	<u>10,984,389</u>
Total Liabilities, Net Assets, and Fund Balance	<u>\$11,056,678</u>	<u>\$183,056</u>	<u>\$11,239,734</u>

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 22 - RISK MANAGEMENT

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all such risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The cost of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, (inland marine);
4. Torts;
5. Natural disasters;
6. Medical malpractice claims against covered infirmaries and employees; and
7. Business Interruption.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

LANDER UNIVERSITY
Notes to Financial Statements
June 30, 1999

NOTE 22 - RISK MANAGEMENT (CONTINUED)

Insurance Coverage (Continued)

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

As required by certain Federal grants, the University pays premiums to a commercial insurer for supplementary health insurance for volunteers associated with the grants.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for losses arising from dishonest or fraudulent acts, limited to \$100,000 for dishonesty, \$50,000 for forgery or alteration, and \$4,000 from theft, disappearance, and destruction. The University also obtains coverage through a commercial insurer for inland marine insurance for musical instruments loaned out to students and for medical insurance covering student athletes.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the unrestricted and restricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, underinsurance, and co-insurance for any covered losses to a State or commercial insurer.

Self-Insurance

The University has elected not to obtain business interruption insurance on its housing operations, an auxiliary enterprise. The University believes the risk of loss is remote and it is more economical to manage such risks internally.

Revenues and expenditures for 1999 related to housing operations were \$2,393,495 and \$1,949,571, respectively.

The University is unable to estimate lost revenues, the cost of relocation and temporary facilities for continuing operations, and the cost of replacement facilities for uninsured losses. However, the University estimates that it would be able to house displaced students in other University-operated housing facilities in the event of a loss.

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated using past experience adjusted for current trends and are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors.

In management's opinion, claims losses in excess of insurance coverage are unlikely. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

LANDER UNIVERSITY
Required Supplementary Information (Unaudited)
Year 2000 Issue
June 30, 1999

I. Primary Entity

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for the example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features - such as environmental systems, elevators, and vehicles - as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the University's direct control but also the systems of other entities with which the University transacts business. Some of the University's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the University.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the University is or will be Y2K ready, the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be year 2000 ready.

The University upgraded the software of all major computer systems in November, 1997 and its telephone system in the spring of 1998. These upgrades included Y2K compliance. It has internally conducted various assessments of Y2K issues. A project plan for remediation of University systems, including timelines, has been developed, costs determined, resources allocated, and work completed. The University's Y2K plan included multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. Because the University has substantially completed the remediation project plan, any remaining Y2K remediation will be covered with normal operating funds.

Work to address the year 2000 issue with respect to each system critical to conducting operations falls predominantly within one of the following stages of work:

1. Awareness stage - Establishing a budget and project plan for dealing with the year 2000 issue.
2. Assessment stage - Identifying the systems and components for which year 2000 work is needed.
3. Remediation stage - Making changes to systems/equipment.
4. Validation/testing stage - Validating and testing changes that were made during the remediation stage.

LANDER UNIVERSITY
Required Supplementary Information (Unaudited)
Year 2000 Issue
June 30, 1999

I. Primary Entity (Continued)

At June 30, 1999, the University had completed the awareness, assessment, and remediation stages and was performing, or had completed, validation/testing work for all mission-critical systems and equipment relating to the following: accounting, payroll, budgeting, receivables, human resource management, student information, telephones, purchasing, and library management.

The University is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the University's business.

II. Discretely Presented Component Units

Because the Lander Foundation and the Lander University Alumni Association use the same computer and telephone systems as the University, these component units rely on the University's remediation project plan. The component units have not identified any mission-critical systems and equipment separate from those provided by the University.

AUDITOR'S COMMENTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

October 8, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
Greenwood, South Carolina

We have audited the basic financial statements of Lander University as of and for the year ended June 30, 1999, and have issued our report thereon dated October 8, 1999. Those financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit. We did not audit the financial statements of the Lander Foundation and the Lander University Alumni Association, component units of the University, which are discretely presented as part of the primary entity in the accompanying basic financial statements. The financial statements of the Lander Foundation were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that component unit, is based solely on the report of the other auditors. The financial statements of the Lander University Alumni Association have not been audited but were furnished to us by that organization. The financial statements of that organization reflect 1.6% of assets, 2.6% of support, and 4.2% of expenses of the component units as of and for the year ended June 30, 1999.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the University is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

The Honorable James H. Hodges, Governor
and
Members of the Board of Trustees
Lander University
October 8, 1999

In planning and performing our audit of the basic financial statements of Lander University for the year ended June 30, 1999, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to express an opinion or provide assurance on the internal control. Accordingly, we do not express such an opinion or provide such assurance. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the basic financial statements. Our comments classified as reportable conditions are reported in Sections A and B of the Auditor's Comments section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We have classified the reportable condition described in Section A of the Auditor's Comments section of this report as a material weakness.

These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of the University as of and for the year ended June 30, 1999, and this report does not affect our report on the financial statements dated October 8, 1999.

This report is intended solely for the information and use of the Governor and of the governing body and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

Thomas L. Wagner, Jr., CPA
State Auditor

SECTION A - MATERIAL WEAKNESS

PLANT FUND ACCOUNTING

The University reports funds to be used for the acquisition, renewal, and replacement of physical properties for institutional purposes but unexpended at fiscal year end in the unexpended plant funds subgroup; funds set aside for debt service charges and for the retirement of indebtedness on institutional properties in the retirement of indebtedness funds subgroup; and funds expended for and thus invested in institutional properties in the investment in plant funds subgroup.

For fiscal year 1999 and prior years, we proposed many adjusting journal entries to ensure that the University fairly presents its financial statements. In prior years, the University did not record any current year activity in the investment in plant funds subgroup; it only posted our prior year adjustments as opening balance entries to the current year's general ledger. During the current fiscal year, the University accepted its responsibility for recording current year activity in the investment in plant funds subgroup; however, we noted deficiencies and inconsistencies. Therefore, we proposed numerous adjusting journal entries to ensure that the University fairly presents its financial statements.

Section AU 110.03 of the AICPA's Codification of Statements on Auditing Standards states,

The financial statements are management's responsibility ... Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, ... record, process, summarize, and report transactions (as well as events and conditions) consistent with management's assertions embodied within the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management ... Thus, the fair representation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility.

Therefore, we recommend that the University assume full responsibility for its plant funds accounting. In the following sections, we will detail some of the plant fund issues that the University must address.

Library Collection

The library records receipts from lost book fines as a reduction of expenditures. This policy duplicates disposal amounts and understates the capitalization for current additions.

The University's school of education maintains a curriculum lab with assistance from the library's staff. The University has not properly capitalized the curriculum lab collection. The University obtained most of this present collection by donation from textbook authors or distributors. For many years, the University's school of education maintained a separate catalogue system on numerous curriculum lab items. The library was unaware of these items and had not included them as additions to be capitalized. In fiscal year 1999, the library added these items to its catalogue system and capitalized them as current year additions.

The University does not have a consistent policy for determining the fair market value of items donated to its curriculum lab. Generally accepted accounting principles state that the basis of valuation for assets purchased or constructed is cost; for assets acquired by gift it is fair market value at the date of gift. Library books should be valued at cost or some other reasonable basis.

We proposed adjustments to the financial statements for fiscal year 1999, including a restatement of the beginning fund balance, to reflect the changes noted above. We recommend that the University establish policies and procedures which will ensure that the University's library collection is properly capitalized. The staffs of the controller and the librarian should work together to ensure that records are maintained to ensure proper capitalization.

We recommend that the University implement the following additional procedures:

1. Establish a contra expenditure account for lost book fines. Reduce the book expenditures capitalized by this account balance.
2. Maintain records on collections donated. Establish a reasonable basis for valuation of these items and capitalize them as part of the collection.

3. Ensure that the collection of all satellite libraries, such as the curriculum lab, is recorded in the general ledger. Ensure that adequate controls and accounts exist to properly capitalize collections purchased and donated.

Unexpended Plant Funds Subgroup Accounting

In prior fiscal years, the University primarily established general ledger accounts for its unexpended plant funds subgroup based on funding source. This method does not properly account for transactions and balances by project for proper capitalization of long-lived assets in the investment in plant funds subgroup. For the current fiscal year, the University added general ledger accounts to properly monitor transactions and balances by project.

The University's projects are primarily funded from capital improvement bonds and its maintenance and renovation reserve fund. In fiscal year 1999, the University expended these funds to complete construction of Old Main; continue renovation of Barrett Hall; and other small projects. In the prior year, the University received \$3,325,000 of capital improvement bond funds for Barrett renovation, fine arts (piano purchase), purchase of land and buildings from the Lander Foundation, and math and science equipment to complete the Old Main project. It expended \$2,125,397 of the funds in fiscal year 1998. As noted in the comment Plant Fund Accounting in our prior report, the University did not monitor transactions and balances by project but by source of funds. During fiscal year 1999, the University reconciled its expenditures by project; however, it could identify only \$2,107,417 in prior year expenditures, leaving \$17,980 of expenditures not associated with a particular project.

State agencies establish permanent improvement projects with the Capital Improvements Unit (CIU) of the Office of General Services. The CIU is responsible for the approval process and for tracking budgets and expenditures for all projects. It maintains the Statewide Permanent Improvement Reporting System (SPIRS) and distributes monthly permanent improvement project activity reports to all agencies. At June 30, 1999, the University's expenditures on its general ledger were \$67,701 more than the expenditures

on the SPIRS report. The reconciling item is an omission of expenditures that should have been reported to the CIU or recorded by the CIU approximately six months prior to June 30, 1999. The University relied on its construction services department to reconcile its project expenditures to the SPIRS reports and did not monitor or review the reconciliations.

The University uses its construction services department to perform much of the work on its current and recent projects. Costs related to work on any capital projects should be added to the project's capitalized cost in the investment in plant funds subgroup. We recommend that the University establish controls to ensure that construction services department costs are properly charged and capitalized, when appropriate.

Similar expenditures are treated inconsistently in the application of the generally accepted accounting principles (GAAP) definition of capitalization. We noted the following problems:

1. Renovation of Barrett Hall was not substantially complete at June 30, 1999. The University improperly capitalized approximately \$350,000 of expenditures to buildings rather than construction in progress.
2. Operation and maintenance expenditures capitalized to buildings for repair of a column and replacement of a dishwasher do not meet the GAAP definition of capitalization.

We recommend that the University properly account for activity by project in its unexpended plant funds subgroup to facilitate proper and timely recording of all current year activity in its investment in plant funds subgroup. We also recommend that the University implement the following procedures:

1. Adopt a written policy for capitalization that meets the GAAP definition for capitalizable expenditures and consistently apply the policy.
2. Perform a monthly reconciliation of project expenditures between expenditures reported on the University's general ledger and the SPIRS reports. The accounting department should review the reconciliation, documents its review by signature of the reviewer and date reviewed, and maintain a copy of the reconciliation in its files for audit purposes.

Retirement of Indebtedness Funds Subgroup Accounting

Per debt covenants, on January 1 the University transfers half of its bond principal payment due July 1 from a State Treasurer's Office cash account to a custodial bank account. It records this transfer as an expenditure which creates a timing problem as it is not an expenditure until the following fiscal year (July 1). It also maintains a required reserve account with this bank. Both accounts accrue interest. The University does not record the principal cash account or the interest income for either account. The only accrual the University records is vendor accounts payable; therefore, we proposed accruals for interest receivable and payable for this as well as all other funds.

Housing revenue is pledged by debt covenant for payment of debt service on both the bond and the Department of Education note. Interest on all debt service and reserve accounts accrues to retire debt. The University records a mandatory transfer from housing in unrestricted current funds to the retirement of indebtedness funds subgroup, pays current year debt service, funds the required reserves, and records any excess as a nonmandatory transfer back to housing.

We proposed an entry to report the required transfer to the reserve account in unexpended plant funds as a mandatory transfer from retirement of indebtedness instead of unrestricted current funds subgroup. We also proposed entries to adjust the nonmandatory transfer of excess funds back to housing as a result of our accrual and correction of errors entries.

We recommend that the University record all transactions related to the retirement of indebtedness in its general ledger correctly and timely.

Plant Funds Procurement

The University expended \$5,935 for replacement of walkways at Brookside and Lide dormitories with three purchase orders for \$1,495 each and one for \$1,450, dated over an eight-month period from August, 1998 to April, 1999. The University had no written documentation to support the agreement between the University and the vendor regarding the scope of work to be performed and itemized line-item expenditures. An employee apparently had a verbal agreement with the vendor to replace the existing walkways using several purchase orders over several months. The employee artificially split its procurement between three or four purchase orders to avoid competitive purchasing requirements as required by the South Carolina Procurement Code. South Carolina Consolidated Procurement Code Section 11-35-1550 establishes competitive purchasing requirements based on the amount of purchase. The thresholds are at \$1,500, \$5,000, and 10,000 and require different numbers of verbal or written quotes or bids. Regarding this purchase and this employee, we noted that the University has taken appropriate corrective action. Similar problems are noted in our comment titled Visa Card Procurement.

We recommend the University require all procurement transactions be subject to proper oversight of its procurement office. It should provide training on procurement laws and controls to all employees responsible for procurement of goods and services. The University's files should include purchase orders and supporting documentation of quotes and/or bids, agreements with the vendor as to scope of work to be performed, and any other pertinent information on the procurement.

SECTION B - OTHER REPORTABLE CONDITIONS

FEE WAIVERS

Proviso 72.20. of the 1998-99 Appropriation Act states, "Senior colleges, universities and technical colleges may offer educational fee waivers to no more than two percent of the undergraduate student body." During the current fiscal year, the University offered \$196,056 in educational fee waivers. This is \$6,728 more than our calculated maximum allowable amount. We noted a similar problem in the prior year.

The University calculated its amount using only enrollment figures from the fall 1998 semester. The amount was computed by doubling the number of undergraduate students enrolled in the fall instead of using actual data for the spring 1999 semester. We noted that spring undergraduate enrollment was less than fall enrollment. Therefore, the University overstated the maximum fee waiver amount and failed to comply with the proviso.

We recommend that the University establish a written policy to ensure that the correct enrollment information is used to calculate educational fee waivers and that the policy is consistently applied.

AUXILIARY ENTERPRISES

The University operates the following auxiliary enterprises: housing and health services, bookstore, food services, and vending. In fiscal year 1999, the University made the following transfers from auxiliaries to education and general:

Housing and Health Services	\$ 88,509
Bookstore	212,849
Food Services	45,512
Vending	<u>10,504</u>
Total	<u>\$357,374</u>

The University used these funds mostly for educational and athletic scholarships.

Part IB, Section 72.13. of the 1998-99 Appropriation Act addresses revenues collected at the State's universities and states in part,

... it is further required that no such fee or income shall be charged in excess of the amount that is necessary to supply the services, or fulfill the purpose for which such fee or income was charged. Notwithstanding other provisions of this act, funds at State Institutions of Higher Learning derived wholly from athletic or other student contests, from the activities of student organizations, and from the operations of canteens and bookstores, ... may be retained at the institution and expended by the respective institutions only in accord with policies established by the institution's Board of Trustees ..."

The University violated this provision of the Act by charging amounts in excess of what is necessary and then transferring the excess funds from food services and housing and health services to fund scholarships.

Generally accepted accounting principles define an auxiliary enterprise as an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of auxiliary enterprises is that they are managed as essentially self-supporting activities.

As reported in Note 2 to the financial statements, the fund balance of the unrestricted current funds subgroup (comprised of auxiliary enterprises and educational and general) has a deficit. Although auxiliary enterprises have an overall positive fund balance, they decreased \$67,679 (exclusive of the compensated absences accrual) during fiscal year 1999.

We observed that the University's auxiliaries are incurring or will soon incur significant repair and replacement costs for roofing, plumbing, guttering, and decking. Therefore, the auxiliaries need to build adequate fund balances to cover these costs. The University maintains one fund balance for housing and health but does record current year activity separately for health and each housing facility. We noted that health expenditures exceeded revenues by approximately \$30,000 and that one housing facility's expenditures exceeded revenues by approximately \$94,000 due in large part to rental expenditures. In total, housing and health has an ending fund balance of approximately \$93,000 at June 30, 1999.

The University should reassess the fees it charges for health and each housing facility to ensure that they cover the current expenditures and a reasonable repair and replacement reserve. Also, the University should consider the propriety of transferring funds from auxiliary enterprises, even when allowed by the Appropriation Act, against the requirement for auxiliaries to be self-supporting activities.

We recommend the University comply with State law by not charging fees in excess of that necessary to provide the service and by not transferring funds from its food services and housing and health services. Even if allowed by State law, we recommend the University not transfer funds from auxiliaries unless it has determined that a real excess exists. It should determine that fund balances will be sufficient to cover future repair and replacement costs.

VISA CARD PROCUREMENT

In fiscal year 1999, the University implemented a credit card procurement program. This State-authorized program is designed to be an efficient and cost-saving procurement program for small, routine purchases. The program does not circumvent the South Carolina Procurement Code.

While reviewing one month's account purchases over \$1,000 and other randomly selected accounts, we noted the following procurement exceptions:

1. The University purchased ventilators totaling \$1,583 for the Learning Center's gas-powered emergency generator exceeding the procurement card's daily purchase limit of \$1,500 and without obtaining either three verbal or written quotes.
2. The University purchased grass seed totaling \$4,102 in three purchases on the same day with each one less than \$1,500 exceeding the procurement card's daily purchase limit of \$1,500 and without obtaining either three verbal or written quotes.

In our opinion based on inquiry and observation of the monthly procurement card bills, there are more instances in which purchases violated the South Carolina Procurement Code or the University's procurement card policies and procedures. In our opinion, the University violated the State's procurement laws by failing to obtain the required quotes and by splitting purchases to avoid the various levels of competitive purchasing.

We recommend the University provide training on procurement laws and controls to all employees that use a Visa purchase card for procurement. We also recommend that the University implement an effective monitoring program to ensure that the credit card procurement program is in compliance with State laws and University policies and procedures.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Auditor's Comments section of the State Auditor's Report on the University for the fiscal year ended June 30, 1998, and dated October 9, 1998. We determined that the University has not taken adequate corrective action on each of the findings except for Plant Fund Accounting – Equipment. We have repeated the findings in whole or in part in Sections A and B.

MANAGEMENT'S RESPONSE



Vice President for Business and Administration

December 6, 1999

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
1400 Main Street, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner:

We have received the preliminary draft copy of the audit for Lander University for the fiscal year ended June 30, 1999. We have reviewed the report and authorize the release of the report as revised on December 2, 1999. We submit the following as Management's Response to be included in the final report.

SECTION A – MATERIAL WEAKNESS

PLANT FUND ACCOUNTING (Pages 49-54)

Overall Recommendation, Page 49

Management's Response: Recommendation will be implemented.

Library Collection – Recommendations, Pages 50-51

Management's Response: Recommendations will be implemented.

Unexpended Plant Fund Subgroup Accounting – Recommendations, Page 52

Management's Response: In 1997-98 the University received \$3,325,000 of capital improvement bond funds for the renovation of Barratt Hall, the purchase of fine arts, science, and math equipment, and the purchase of buildings and land from the Lander Foundation. In FY 1998-99, the University accounted for these projects separately by establishing additional accounts; however, the SPIRES tape program failed to recognize one new account resulting in the \$67,701 discrepancy between the general ledger and the State Treasurer's Office. This error has been corrected. The recommendations will be implemented.

Retirement of Indebtedness Funds Subgroup Accounting – Recommendation, Page 53

Management's Response: Recommendation will be implemented.

Plant Funds Procurement – Recommendation, Page 54

Management's Response: As noted in the audit, the University has already taken appropriate correction action in regards to this matter. The recommendation will be implemented.

SECTION B – OTHER REPORTABLE CONDITIONS

FEE WAIVERS – Recommendation, Page 55

Management's Response: The University calculated the amount of its 1998-99 Fee Waivers in a manner consistent with the method used in the prior fiscal year which is based on fall enrollment figures. This method of calculation is in accordance with the position that the South Carolina Commission on Higher Education has taken that allows each institution to determine the method by which it computes fee waivers. Management maintains that its method of computation is valid and is in compliance with the proviso.

AUXILIARY ENTERPRISES – Recommendation, Page 58

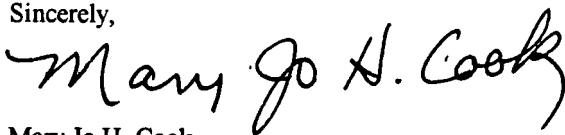
Management's Response: In past years, the University offered full Presidential Scholarships that provided fees, room, and board, and each of these areas are charged with the appropriate share of the expense. As previously stated, these scholarships are no longer awarded but since the original commitment to the students was for four years, it will take two more years to phase out this program. The University maintains that it is in compliance with State law in both its charge and use of fees in auxiliary enterprises.

VISA CARD PROCUREMENT – Recommendation, Page 59

Management's Response: Of the two exceptions noted, the University had already taken appropriate corrective action in regards to one of these incidents. The recommendation will be implemented.

The University is grateful to your office for the audit work and suggestions for improvement.

Sincerely,



Mary Jo H. Cook
Vice President for Business and Administration

MJHC:rk

cc: Dr. William C. Moran
Mr. M. Blair Willingham